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# Valmont Industries, Inc. (VMI)

Q1 2023 Earnings Call

## CORPORATE PARTICIPANTS

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*Analyst, D.A. Davidson & Co.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the Valmont Industries' First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. We ask that you please limit yourself to one question and one brief follow-up question and return to the queue. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the conference over to your host, Renee Campbell, Senior Vice President, Investor Relations and Treasurer. Ms. Campbell, you may begin.

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**Renee L. Campbell**

*Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.*

Thank you and good morning. Welcome to Valmont Industries' first quarter 2023 earnings call. With me today are Steve Kaniewski, President and Chief Executive Officer; Avner Applbaum, Executive Vice President and Chief Financial Officer; and Gene Padgett, Senior Vice President and Chief Accounting Officer.

This morning, Steve will provide a brief summary of our first quarter results, commenting on our markets and long-term business strategy. Avner will review our financial performance and provide our current outlook and indications for 2023, with closing remarks from Steve. This will be followed by Q&A. A live webcast of the presentation will accompany today's call and is available for download from the webcast or on the Investors site at valmont.com. A replay will be available on our website later this morning.

Please note that this call is subject to our disclosure on forward-looking statement, which applies to today's discussion, is outlined on slide 2 of the presentation and will be read in full at the end of today's call. Finally, if you would like to be notified when Valmont publishes news releases and other information, please sign up for e-mail alerts through our Investors site. We also encourage investors and others interested in our company to follow Valmont and our brands on the social media channels listed on our website.

I will now turn the call over to our President and Chief Executive Officer, Steve Kaniewski.

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## Stephen G. Kaniewski

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

Thank you, Renee. Good morning, everyone, and thank you for joining us. We delivered another quarter of great results despite an economic environment that continue to be challenging. Our performance reflects the effective execution of our growth strategies and our deliberate actions to increase profitability. We have a great team and we are positioned to achieve another year of great results.

Turning to slide 4, there are a few highlights we want to share with you today. First, we've had a tremendous start to the year with record first quarter sales, operating income and earnings per share. Net sales increased 8.3% with solid growth in both Infrastructure and Agriculture. Adjusted operating margin improved to 11.5%, reflecting benefits from strategic pricing, our ability to manage costs and improve operational efficiencies that led to better factory performance. Adjusted earnings per share grew to \$3.61. Avner will provide more details in a few moments, but I am extremely pleased with our results and proud of the entire Valmont team for these accomplishments.

Demand for our products remains robust. And we are in markets and sectors that tend to be independent of the general economy and less correlated to macroeconomic cycles. Our participation in these markets is not by chance, but the result of a deliberate investment strategy. We have targeted expanding niche markets where we can add the greatest value to our recognized product leadership, flexible global footprint, and innovative technology to help solve customers' challenges. In both segments, our disciplined approach to strategic pricing helps ensure that we are capturing the value we deliver to our customers, while expanding margins.

This helps offset inflationary pressures that are still present in our supply chain. Notably, the recent increases in steel costs. We remain vigilant in monitoring and responding to cost increases and will take actions when necessary to maintain the margins we have worked hard to achieve. In a few minutes, Avner will speak to our capital deployment framework and update you on the latest actions to drive shareholder value. This is an important part of our strategy and enhances our value creation initiatives.

Turning to a market update on slide 5, and starting with Infrastructure, our markets are benefiting from several secular long-term growth drivers, including the global energy transition. The infrastructure investment required to support the transition is in its early innings and utilities are increasing their spending to support grid hardening initiatives and an evolving generation portfolio. Recent reports from utilities indicate 2023 CapEx spending is expected to increase 10% over last year, and total spending over the next three years is expected to continue growing. Overall, utility spending initiatives continue to show resilience to a higher cost of capital environment, inflation and general economic concerns.

Our solar business is benefiting from the renewable energy transition and order rates have been increasing, leading to a record global backlog that is 3 times higher than one year ago. We expect further demand to come from US markets once the industry receives more clarity on how critical elements of the Inflation Reduction Act will be implemented.

During the quarter, we continued to see solid order flow from transportation markets and additional quoting activity related to the Infrastructure Investment and Jobs Act. As a reminder, our lighting and transportation products are typically purchased 9 to 12 months after funding appropriations are completed. So, we expect to benefit from this incremental demand beginning in 2024.

In telecom markets, underlying multiyear demand for 5G deployment remain strong. We have seen some pullback in carriers' CapEx this year to more normalized levels. These spending patterns are typical within the industry, as we've seen with previous generation rollouts. We remain well positioned to help carriers achieve their 5G and densification goals. Across the Infrastructure segment, we continue to make strategic investments in capacity and technology solutions to meet strong multiyear demand.

Turning to Agriculture. Underlying global market fundamentals remain positive, providing stability to overall demand trends. International ag markets remain very strong, led by Brazil and a robust project pipeline elsewhere. The Brazil market has continued to strengthen as the value of agricultural exports have expanded approximately 10% annually for the past 20 years, most recently to support lower expected yields in the EU and the Ukraine.

Irrigated land acres in Brazil have increased over 40% annually over just the past three years. And this year, a second consecutive year of record corn output is expected there. Last year, we began investing in additional factory capacity within the country, which we fully expect to come online this year, allowing us to meet the increased market demand, while enhancing customer service levels. Additionally, our robust project pipeline is providing a multi-year line of sight and we are well positioned to benefit from these opportunities in 2023 and beyond.

Turning to North America. As the first quarter progressed, we recognized some changes to typical order patterns as growers took a wait-and-see approach to buying decisions, amid general economic uncertainty and a late planting season due to abnormal weather conditions. We also recognize the difficult comparison to first quarter 2022 when we delivered against an exceptionally elevated backlog. We expect the second half of the year to return to a more normalized order flow. As commodity prices have remained resilient, our projected 2023 net farm income levels are expected to remain above historical averages.

Moving to slide 6, earlier this month, we were excited to host a Media Day event at our global headquarters to celebrate the commencement of our 2023 AgTech Tour. The half-day event included networking for media, community leaders and our expert Valley and Prospera staff. A fireside chat with Daniel Koppel, President of AgTech and myself, as well as a roundtable of customer and dealer panelists that have experienced a tremendous return on investment from our technology solutions. We were honored to have Nebraska Governor, Jim Pillen, speak at the event.

Over the next six months, our team will travel the country, showcasing our suite of technology offerings, including remote control solution, machine health diagnostics and our featured release of plant insights to monitor crop health. With more than 60 planned stops across 20 states, growers are invited to have an open discussions to learn how our technology solutions can provide unparalleled farm agronomy data and insights to maximize land productivity. Adoption rates of our AgTech solutions have been increasing, and our investments in technology have uniquely positioned us in the market, while setting our Agriculture business up for success through the cycles.

Turning to slide 7, next week, we will publish our 2023 sustainability report. For Valmont, sustainability is embedded in everything we do. Our tagline, conserving resources, improving life, is a testament to the work we do to help our customers do more with less. In the report, you will see an update on our ESG progress and commitments and multiple examples demonstrating that ESG is a part of our strategy, operations, and a competitive advantage. On this slide, we highlight our Champion Green Team in Acacia Ridge, Australia. This team was selected from our more than 80 global green teams for the annual award to recognize the work they have done towards our ESG philosophy.

I was proud to be able to acknowledge the achievements of this team and appreciate everything our global team does every day to demonstrate our commitment to sustainability. I encourage you to take the time to read the report when it is published. We also plan to host a dedicated ESG conference call later this year to expand on the key elements of the report and respond to your questions.

With that, I will now turn the call over to Avner for our first quarter financial review and updated outlook.

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## Avner M. Applbaum

*Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.*

Thank you, Steve, and good morning, everyone. Turning to slide 9 and first quarter results, my comments will focus on the adjusted results as outlined in the press release and in the Reg G disclosure in the presentation appendix.

As mentioned last quarter, the divested offshore wind business is now being reported separately in Other. My comments today will focus primarily on our two reportable segments: Infrastructure and Agriculture. First quarter total net sales of \$1.1 billion grew 8.3%, driven by sustainable pricing and volume growth in both segments. Excluding the Other segment, sales grew 10.4% year-over-year.

Operating income grew 23.4% to \$122.1 million, with operating margins increasing to 11.5%, approaching our long-term goal of 12% and reflecting execution of our disciplined pricing strategy, higher volumes, and improved fixed cost leverage. Diluted earnings per share grew 17.6% to \$3.61, attributable to higher operating income, partially offset by a higher tax expense due to a change in the geographic mix of earnings compared to last year.

Turning to slide 10, Infrastructure net sales of \$736.1 million grew 11.2% year-over-year, with sales growth across all product lines, including a record quarter for TD&S and double-digit growth in solar, which is the renamed renewable energy product line. Segment sales growth was led by higher pricing and strong underlying market demand. We continue to realize the benefits of our strategic capacity expansion and have responded to this demand through new product innovation and footprint optimization to drive volume increases across the segment. Operating income increased to \$94.4 million, or 12.9% of sales, driven by sustained pricing and volume growth.

Moving to slide 11, in Agriculture, net sales of \$332.2 million grew 8.3% year-over-year, led by sustained pricing, volume growth, and higher sales of technology solutions. Strong growth in international markets, including another record sales quarter in Brazil, where volumes grew nearly 50% year-over-year and higher Middle East sales more than offset lower volumes in North America, as first quarter 2022 benefited from the delivery of a record year-end backlog.

Operating income increased to \$57 million, or 17.2% of sales. The benefits of higher average selling prices and additional volume leverage were partially offset by higher SG&A, including incremental R&D expense for technology investment.

Turning to cash flow on slide 12, first quarter operating cash flow of \$21 million was driven by diligent working capital management and a more stable price/cost environment. We will continue to focus on effective working capital management as we look to move free cash flow equal to or greater than net earnings.

Turning to slide 13 for a summary of first quarter capital deployment, CapEx was \$22 million as we continue to invest in capacity to support sales growth. We further demonstrated our commitment to return cash to shareholders with an increase to our quarterly dividend and continued share repurchases. The additional \$400 million repurchase authorization, announced in February, gives us additional capacity to repurchase shares, while the increase in our dividend is reflective of our confidence in sustained earnings growth and strong cash flow generation.

Through our balanced capital deployment framework, we are focused on enhancing shareholder value as the strength of our business continues. In the first quarter, we returned approximately \$123 million to shareholders through dividends and share repurchases, ending the quarter with \$173 million in cash. Going forward, we will continue our balanced capital allocation approach, although we expect a slower pace of repurchases for the remainder of the year.

Moving to slide 14, total debt to adjusted EBITDA of 1.7 times remains within our desired range of 1.5 to 2.5 times. Our cash balance, available credit and flexible balance sheet provides us with ample liquidity to execute our capital allocation strategy. During the quarter, Moody's reaffirmed our Baa3 stable credit rating.

I would now like to review our 2023 outlook as shown on slide 15. We expect sales growth to remain at 4% to 7%, which accounts for the divestiture of the offshore wind structure business and assumes mid to high single-digit volume growth, approximately 1% price growth and no material foreign currency impact. We expect operating margin expansion this year, given strong market demand, our pricing strategy and ongoing continuous improvement initiatives. We also assume steady market demand, a more stabilized labor environment and continued growth in R&D investments. We expect continued strength across Infrastructure market this year as our healthy global backlog is providing good visibility.

In Agriculture, as Steve mentioned earlier, underlying ag market fundamentals globally remain positive. International growth this year is expected to be very strong, driven by project sales and a robust Brazil market, where our backlog visibility extends into the second half of the year. Agrishow, the largest farm show in the region, will begin in a couple of weeks, giving us further confirmation of our full year expectation. We expect North America Agriculture volumes in the second quarter to be similar to the first quarter due to difficult comparison to unusually high volumes in the second quarter of 2022 as we delivered an elevated backlog. We expect international sales in the second quarter to be up approximately 10% compared to the first quarter.

Finally, a reminder that the third quarter is typically a lower sales quarter compared to the rest of the year. However, strong international sales, led by our growth in Brazil, where they can produce two or three crops per year and high project sales are likely to mitigate seasonality impacts. We now expect adjusted diluted earnings per share growth of 12% to 16% for a range of \$15.45 to \$16. While our previous outlook assume a more stabilized inflation environment, we're seeing recent increases in raw material costs notably still. We expect these costs to align with current price projections for the remainder of the year.

Our total backlog of \$1.6 billion at the end of the quarter remains near record levels and at solid margin levels attributable to continued market strength across the portfolio and multiple new project awards. As a reminder, our backlog is firm, with committed projects and typically experiences few cancellations. We believe our backlog is an indicator of the strength of our core markets and the steady growing demand for products and solutions.

To summarize, we are confident in our outlook and believe that it demonstrates the strength of our portfolio, favorable end-market trends and strong competitive position in the marketplace. We are leveraging our global scale to improve margins and drive strong cash generation, enabling us to support our growth strategy and achieve our long-term financial targets, driving sustainable shareholder value.

With that, I will now turn the call back over to Steve.

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## Stephen G. Kaniewski

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

Thank you, Avner. Turning to slide 16 and expanding on Avner's summary, the fundamental long-term drivers of our markets remain resilient. Our end markets have true multi-year and in some cases multi-decade tailwinds that set us up for a long runway of growth. Our Infrastructure business is supporting the global energy transition, critical infrastructure to support transportation markets and mobile network upgrades. In the Agriculture market, the combination of land productivity and resource conservation needs are driving investments globally. Additionally, both segments are experiencing technological transitions and we are solving customer pain points by integrating value-added innovation that will continue to deepen our competitive advantage.

In summary, on slide 17, I am extremely proud of our team's strategic execution and ability to deliver sustained outperformance through challenging market dynamics. Our growing sales and strong backlog demonstrate our market leadership and we will continue to develop capabilities and centers of excellence across the organization to build on our momentum. We are investing in innovation, technology and digitization that will accelerate our growth beyond market rates. Our focus remains on controlling the things we can control to achieve our financial targets and deliver shareholder value. This is enabled by a strategic framework that positions Valmont for success now and in the future.

Finally, I look forward to meeting with you next month at our Investor Day on May 23, as we provide a more in-depth review of the company and business segments, including growth strategies, capital allocation priorities and financial objectives.

I will now turn the call back over to Renee.

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## Renee L. Campbell

*Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.*

Thank you, Steve. At this time, the operator will open up the call for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Chris Moore with CJS Securities. Please proceed with your question.

**Christopher Moore**

*Analyst, CJS Securities, Inc.*

Q

Hey, good morning, guys. Thanks for taking a couple questions. Yeah. Maybe we can just – you talked a lot about Brazil. Obviously, your remarks are very bullish. Kind of been hearing mixed messages about the strength of demand, things like election related risks, things like that. Can you maybe just talk to it a little bit further? Kind of the Valmont business model within Brazil, are you doing anything unique or just taking advantage of what you're seeing as to be kind of really strong growth there?

**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Morning, Chris. There has been a real deliberate effort, over the past five years, to increase our dealer network throughout the country of Brazil, to add more local capacity, so that we're not as subject to some of the import issues with inventory to create an aftermarket parts strategy. We're testing a lot of our technology down there, even as a leading technology proof of concept.

So, I think when you look at that in its totality, our efforts are paying off for us. I think the other big thing as compared to, let's say, North America or Europe is just the fact you get two to three growth seasons and you have corn really opening up in the West. And so, because they're on a replenishing aquifer in the West, corn, because they now have a really robust cattle industry, the byproducts of some of the ethanol production from corn can be used to feed cattle. That's helping to drive business as well.

And then, obviously, FINAME has been very supportive in all growers participating in the market, which is why we see that if someone puts land in production, 40% of the time, they're going to put a pivot right on it right away. And that is significantly higher than you see in other parts of the world, including the North American market. So, Brazil is the market of the future and will really surpass our North American market in the not so distant future.

**Christopher Moore**

*Analyst, CJS Securities, Inc.*

Q

That is incredibly helpful. Maybe just one more on a bigger picture on Agriculture. Over the next 12 to 18 months, is there – when you look at the potential challenges, is there any difference by geography? I mean, do you have more or less confidence in North America than international moving forward? And I guess, obviously, you ended by just saying how strong Brazil was, so.

**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. I mean, Brazil, obviously, over the last three years, has doubled for us, each of those last three years. So, we have a lot of confidence in Brazil, even at despite some of the government, change of government and other things, ag brings in, I think, 23% of GDP down there. So, it is a significant piece that they're not going to mess with. The Middle East, we've talked about Eastern Europe is also strong regions for us and will remain so, both

food security and just pure population growth. Australia and New Zealand has been a market that for the last couple of years was affected by pretty severe weather events.

But overall ag fundamentals, when you have soy at \$14.60 or north, corn above \$6, well above \$6, most of the time, I think as farmers have kind of settled in after a record net farm income, just human psychology, what it is, you come off of the best earnings you've ever had, do you want to stop and take a look before you start to reinvest?

And I think as people now get emergence, they can lock in some of their forward contracting at very favorable rates. The soy markets of the world, obviously, Brazil being one of the biggest with these kinds of soy prices, I think will – they'll get back into the game very quickly, because of the old, I don't like tax and I need my land productivity to keep my costs low. So, the fundamentals are there.

But the past three seasons were not really indicative of what we would call a traditional ag market, COVID, then it was kind of hyper-inflation in metals and then supply chain issues, labor issues last year. And so, I think we're really starting to finally get back to a more normalized kind of ag market.

**Christopher Moore**

*Analyst, CJS Securities, Inc.*

Q

That's perfect. Thanks, Steve. I'll leave it there.

**Operator:** Thank you. Our next question comes from the line of Nathan Jones with Stifel. Please proceed with your question.

**Nathan Jones**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Good morning, everyone.

**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Good morning, Nathan.

**Avner M. Applbaum**

*Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.*

A

Good morning.

**Nathan Jones**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

I'll go on the domestic ag market. You guys said revenue in the quarter was similar to last year. I'd assume you have a few points of pricing there, so volume is probably down a few points. Can you talk about the difference just in the seasonality? I know there was demand pull forward early in the season last year. Does that account for all of the volume decline or is there farmer sentiment in there and how do you expect that to normalize as we go through the year? Should we expect maybe a better second quarter than you had last year? Demand is shifting from one quarter to the other.

**Stephen G. Kaniewski***President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Nathan, it's – there was definitely some pull-forward and some negative farmer sentiment as we came into the year. I think that, plus the fact that much of the, let's say, west of the Mississippi was abnormal weather conditions and people really late to get out into the fields. We expect that really the second half of the year will be more normalized. And that second quarter will still have some pressures on it from the fact that particularly in the April timeframe, it was still – we're just starting to see now a pickup of order rates, an increase in farmer sentiment literally week by week, we can talk to our dealers and growers.

And so the confidence is just starting to build. And so that's why we've talked about the quarter kind of being the way it is. Avner, do you want to add into kind of a way we're thinking about it?

**Avner M. Applbaum***Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.*

A

Yeah. So when we kind of look at – thank you, Steve. So when you look at the actual quarters, we're looking at – kind of looking sequentially, and really looking at kind of the North America volumes being pretty much flat, Q2 to Q1, similar kind of sequential pricing as well. And then we do see the impact of the international markets products sequentially being 10% up, driven by kind of the comps year-over-year.

**Nathan Jones***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. I know you guys have talked about, and obviously, the cost of steel has gone up very rapidly again. And you've talked about having – needing to raise prices to cover those increased costs. Are farmers continuing to be able to bear those cost increases? Is that kind of having any impact on their outlook for irrigation spending? I know there's still a drought moving across the Midwest. How does that impact farmers' need to go out and buy irrigation? Just any more color you can give us around that.

**Stephen G. Kaniewski***President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. I'd say, Nathan, this is probably – the price increase we're talking about now is probably our smallest price increase that we've gone out with over the last couple of years. It really is just to take some of the edge off as it pertains to steel, some of the labor inflation and some of the other freight and oil and some other things like that. So it's really just to kind of put it back to, what I would say, is a normal price increase representative of the market and our continued investment in technology that we're supporting.

The pivot still has an incredible payback. And as you mentioned, some of the conditions that are out there, the need to get data off the field to conserve water and to really ensure that there's a crop, and particularly the large-scale farms, as we've mentioned before, if they have the rights, they're going to put a pivot in almost immediately. So, we don't think that this is going to push the market to any kind of elasticity problem. And we're just really getting ourselves back to a price/cost ratio that we believe is indicative of where we would have been even back in, let's say, 2013 or 2014.

**Nathan Jones***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great. Thanks very much for taking my questions.

**Operator:** Thank you. Our next question comes from the line of Brian Drab with William Blair. Please proceed with your question.

**Brian Drab**

*Analyst, William Blair & Co. LLC*



Good morning. Maybe I could just start by building on that last question around steel prices and just ask it more broadly. I mean, steel has just been on a rollercoaster ride. And from last summer, until where we are today, it's gone down dramatically, and then it's up like 80% year-to-date. So, what are you seeing in terms of the price change in your different segments over that time period kind of if you look at this latest big dip in steel price from last summer to now, where are we?

And then also, how is that maybe – that big swing – recent swing affected businesses like irrigation? There was some thought that maybe some customers might be – have been waiting for a price decrease and that paused the market somewhat. I don't know if that comment – is that dynamic real, and did you see that?

**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*



Yeah. Thanks, Brian. Well, steel price and irrigation as a percentage of the cost of goods sold is not as significant as it would be in this area of utility business. That said, it uses more of the coil, which has been more volatile than the other forms of steel, which we use like plate and bar and angle.

And so, it can have a more dramatic impact to your cost of goods sold in a quicker time period. We've done a good job of protecting our customers and ourselves through hedging programs, through some physical hedging, as well as some inventory management programs that we've picked in place. And so, it was really tough for a while to kind of figure out where steel was from the price/cost perspective. And that's why, I think we've seen it – enough stability, even with the movements down and up, where this can be just a nominal tweak, so to speak, to the pricing that we need to make sure we're capturing what we are.

Recall that in particular, our utility business, we have pass-throughs. And so, in the second half of the year, we know that some of our revenue in utility will go down, not the margin, but the revenue, because we get that back through the form of steel pricing. Now that uptick with a 40-week lead time won't show up until next year in terms of some revenue increases that will then come through the mechanisms.

Plate steel has been pretty resilient through all of this. And that's because a lot of plate goes into infrastructure. And infrastructure, whether it's bridge and highway or like our own utility business, has remained pretty strong. And so, the dichotomy of coil to plate is still there, albeit not as significant as it was during the peak. But that normalized kind of \$100 a ton difference is not something we've seen for a long time.

So, long winded answer, but I would say to you that steel and the recent movement we've accounted for well, and I think we've done a good job of being able to protect both ourselves and the customers and really has not dampened demand. Yes, there's some people that wait on the sidelines that always happens. But I think in today's inflationary environment, there's enough other points of inflation, that really, no one should be expecting a price decrease anytime soon on anything that's got steel or aluminum or zinc or metals involved with it.

**Brian Drab**

*Analyst, William Blair & Co. LLC*



Great. Yeah. Thanks. That's really helpful. And then, can you, Steve, just comment on any big international projects that might be out there, just that dynamic? Is the pipeline still as strong as it's been? In the past, you mentioned that even in Egypt, you're seeing the potential for maybe some add-on projects there. I know you announced some like \$85 million in opportunity in Africa. Can you just comment on that pipeline?

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**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. I'd say that the pipeline over the last couple of years has been that there's one very significant order per year, like the \$85 million award we received. And there is a good number of projects that are, say, \$30 million and below that are coming through that we don't announce, but that were being awarded. And they're from those regions, whether it's Middle East, Africa, Eastern Europe or Central Asia. And so, the pipeline is still very good. Again, the market fundamentals around food and food production, food security, all the interruption with Ukraine, Russia, still plays favorably to that pipeline. The long-term pipeline is Africa. They will definitely have development money that will flow into that area. And just the pure need for it for political stability is foremost on governments' minds.

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**Brian Drab**

*Analyst, William Blair & Co. LLC*

Q

Got it. Thank you very much.

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**Operator:** Thank you. Our next question comes from the line of Ryan Connors with Northcoast Research. Please proceed with your question.

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**Ryan Michael Connors**

*Analyst, Northcoast Research Partners LLC*

Q

Good Morning. Thanks for taking my question. So, I wanted to come at the ag side from a bit of a different angle, Steven. You talked a lot about the top-line, the revenue outlook, demand outlook, international versus North America. But in terms of the margin and the mix outlook, if we go into the assumption, as it seems like, is the tone that international's going to, at least in the short run, be more of the growth driver. That was the case in the quarter, balance of the year, probably. How does that impact the margin story and the mix in terms of the margin story in irrigation? And then – and obviously underlying that is, what does the bidding environment look like on some of those big projects you talked about? Has it gotten more competitive, less competitive, stable? Any color you can add there would be helpful.

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**Avner M. Applbaum**

*Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.*

A

Hi, good morning. I can start off. With the mix, as we look at the international, ag businesses for us, actually the margin has consistently been improving in our international businesses. Brazil specifically has a very strong margin profile. As we mentioned earlier, there are two to three growing seasons. The farmer there has ability to make some good profits. And so, Brazil has a really good margin profile.

And then, when you look internationally, as we embed technology into our solutions, that increases the margins as you get more into the aftermarket business. So, as that business continues to grow and the margins continue to improve, the fact that that grows versus North America will have a less prominent impact on our margins going forward.

It's not quite yet at the North America level, some of these projects just to the magnitude of those projects will have some lower margin profile. But overall, we shouldn't expect a significant change in margins. But as we've seen in our first quarter, we have a – we had a very strong margin of 11.5% which we're really proud of and on our way to our 12%. And we expect our kind of margins to continue to stay at those higher levels and improve throughout the year.

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**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

And relative to your question about the bidding, obviously, when there's an award like an \$85 million award, that's going to be very competitive, it brings in players from Saudi Arabia, from Europe. It's not just our US competitor base at that point. So, they have the ability to quote utilizing a global supply chain. And thankfully, we've built a very strong global supply chain where we can source things throughout the world and bring it together in the project location and still make money that is favorable to the company at that point. But any time you're going to see a large project, it's going to be very competitive. But the projects that are more in that \$30 million range, obviously, the midsized type projects, not nearly as competitive.

Usually, there's a lot more cultivation that went on with the deal, specification, maybe some land use work that was done ahead of time, pumping solution type of things. And I think you need to be able to bring together the entire package if you want to be able to do these projects that have favorable margins to the company. And we've deliberately, over the years, set up a pumping solutions engineering group. We've worked on land use. We help bring development money to our customers and all of that together is why we can pull off the projects, whether they're small scale or large scale and make good money.

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**Ryan Michael Connors**

*Analyst, Northcoast Research Partners LLC*

Q

Got it. Okay. And then, my other one just was on the transmission side. Speaking of the supply chain, you mentioned, Steve, any lead time update there? I know it had been a constraint at one point, you had indicated that lead times had started to get better, were holding around 40 weeks, I think, is what you had mentioned. Any update there on lead times in transmission particularly?

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**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

We're still around and the market is still around that same 40-week lead time. There's a few competitors that may be slightly below that. But as an industry, 36 to 40 weeks, depending on the construction, is kind of holding at this moment. And that's with, as we mentioned earlier, the CapEx budgets being up a little bit more than we originally anticipated, where we were thinking maybe 7%, 8% more like 10% now.

And so, we've been able to keep our ship completed on time, pretty strong at that level, but obviously looking for areas of growth from our operations team and hours. And if we can create the hours, we know that we'll be able to start to pull some of those lead times down, which would be viewed favorably by the customers.

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**Ryan Michael Connors**

*Analyst, Northcoast Research Partners LLC*

Q

Got it. Thanks for your time.

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**Operator:** Thank you. Our next question comes from the line of Brent Thielman with D.A. Davidson. Please proceed with your question.

**Brent Thielman***Analyst, D.A. Davidson & Co.*

Q

Hey. Thanks. Good morning. Steve or Avner, again, really impressive margin that this quarter and best we've seen in years. I guess my questions, look, with the run up in steel prices you've seen so far this year, what – to what degree were those costs reflected in the first quarter? And then, I mean, shouldn't that have a more material impact on 2Q and 3Q margin, just given the natural lag in pricing? I guess, where I'm confused, because it sounds like you think your margins can sustain at these higher levels, even in the face of that?

**Avner M. Applbaum***Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.*

A

Yeah. Thanks. I'll take that one. Good morning. So, overall, as you mentioned, we had strong margins in Q1 and we do expect those margins to continue throughout the year. Now, there is lagging between the steel increases and how that impacts our P&L as we buy inventory, does impacts our pricing, although eventually, they kind of net. There is some fluctuations you'll see throughout the year. So, the higher steel cost, we're not seeing it yet on our P&L. We're not seeing it yet on our backlog. That's going to lag definitely for several quarters.

So, overall, we might see – there is some lumpiness, you might see throughout a certain quarter based on the increased steel. But we – as Steve mentioned, we do a really good job on managing those increases through some financial hedges, physical hedges, pricing. So overall, it's not a concern for us. We just kind of manage it closely and it can create some movements within quarters. But nothing that should impact our overall performance and margin profile.

**Brent Thielman***Analyst, D.A. Davidson & Co.*

Q

Okay, okay. Thanks, Avner. I guess the follow-up would be on the Agriculture segment. I'd just be curious your sort of high-level thoughts how we ought to think about for this evolving lending agreement for the access to capital liquidity for farmers. Is that a concern? Is the lenders sort of across the country tighten credit here? How do we think about that in the context of that business?

**Stephen G. Kaniewski***President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Brent, it's a good question. We've seen it out there quite a bit. Farmers have one of the best abilities to pay back, because they have an asset base that's there to back up the loan. So, I think there is a lot of programs out there that have discounted or bought down points as it relates to machinery and equipment. As we've talked about many times, pivot is the second best payback on the farm compared to the tractor and that three to four years is the typical payback. So, even with some of the elevated rates probably in 400 basis point or 500 basis point increases from the same time last year, that still works financially, particularly given the elevated crop prices.

Soy being at \$14.60, any time you're close to \$15 is unbelievable. Soy pay price, yes, their inputs are up. But I think that those inputs, as they look out, going further, have come down and stabilized. So maybe they locked last year at a high rate this year. That's what has been kind of the – as we went through the kind of first quarter, that the farmer just really needed to sit down with their accountant and kind of figure this all out.

And because it's a new environment for them, it's a little uncertain. I think they're getting a lot more certain as things progress. And we've not seen it affect land at this point too heavily. More on the small grower side, but not the big grower side. They're actually out hunting for land. And on the machinery equipment perspective, as I

mentioned earlier, if it's a large-scale farm, they're going to put a pivot in, and they're typically buying cash anyway.

So, I think the overall environment, if it's kind of this is where it is, then the grower will digest it and make their decisions. And the answers are not very much different. It's still the tractor, it's still land, it's still a pivot, are all good investments for the grower. So that's – I think they should remain fairly positive, even despite the rates.

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**Brent Thielman**

*Analyst, D.A. Davidson & Co.*

Q

Okay. Thanks for that, Steve. Appreciate it.

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**Operator:** Thank you. Our next question comes from the line of Jon Braatz with Kansas City Capital. Please proceed with your question.

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**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Good morning, everyone.

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**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Good morning, Jon.

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**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Steve, in your commentary, you talked a little bit about the increased R&D spending in the agricultural area. And I'm wondering if you could tell us how much maybe you're spending and what the trend is like going forward, and maybe some of the things that you're working on. Give us an idea of what the opportunities are.

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**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. We have been increasing R&D spend to the tune of, let's say, \$4 million to \$6 million per year, kind of year-over-year. And that has gone to – a big portion of that is to AgTech, Prospera, and the insights product being one of it, that's something that we're seeing very strong adoption rates, real good paybacks for the growers that are utilizing it. But we're not just working on pure AgTech. We've also been investing over the years, if you think about our X-Tec drives. X-Tec is a continuous drive machine.

So, there's only one other out in the marketplace that does it hydraulically. We can do it electrically. And so we can get around the field in two hours with that product. That took some significant investment to do that. We've now put ICON panels onto our linear machines. That was something that we have been wanting to do for a number of years. So, it's a combination of upgrading both the pivot and the electronics around the pivot and the functionality of the pivot, and also these newer agronomy-type of services that we've done out there.

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**Avner M. Applbaum**

*Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.*

A

I'll just jump in. Specifically to research and development, kind of the overall dollars that we spent last year, we're approaching \$50 million, and that's specifically to R&D. Of course, we spend more in innovation and such and we continue to increase. But just as a reference point, it was \$46 million last year.

**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Okay. Thank you, Avner. And Steve, last thing, last week, you announced this partnership with Control Module. And I did some reading on the technology and what's happening in that area, and it sounded very interesting. But can you tell us a little bit more about what you see for that technology and that market opportunity, and maybe how your partnership with Control Module might work? Now, I understand it's small at this point, but can it move the needle down the road?

**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. I think when you look at our data acquisition and the way that we get data in and process the data, we're looking at a series of technologies that are there to try and bring that forth. And that company gives us an element of that that we wouldn't have otherwise.

We've always said that we want to look at the ecosystem and decide where to invest and kind of own the technology versus where we want to partner with a company that already has done significant R&D and probably too big of a head start for us to get into there.

So, it's – our ecosystem of the way we're going to grow technology will be done through a lot of these kinds of partnerships. And so, we're excited about them. It is something that, down the line, our infrastructure technology, which we're going to talk a lot more about at our May 23 Investor Day. So we'll be able to give you a lot of good color as to how that ultimately fits in with the growth strategy and the transformation of our business into some more recurring revenue.

**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Okay. All right. Thank you, Steve.

**Operator:** Thank you. Our final question comes from the line of Brian Wright with ROTH MKM. Please proceed with your question.

**Brian Wright**

*Analyst, ROTH Capital Partners LLC*

Q

Thanks. Good morning. Just I was wondering, with the Farm Bill going through its processes, are there any things that we should be watching for or that you're hearing about that can have an impact on the ag part of the business?

**Stephen G. Kaniewski**

*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Good morning, Brian. The Farm Bill always goes through a lot of maturations and political wrangling. Usually, the food stamp issue can kind of blend into there to some degree. But it's typically very bipartisan. The ag ministers from a state that is very ag-based, we don't expect any significant kinds of changes to that. There is sometimes –

it now is bleeding in more some of the environmental considerations that go with it. And so those are things that we're watching. If there is more of a regulated kind of data to be provided, that actually is good for our business, because it's where our technology solutions are helping the growers today to meet their ESG needs.

So I think that's something that we're watching, but we don't expect anything overly significant. The equip program, just to make a note of it, was re-upped for \$850 million, and – but it had – it actually had expired. And so it's forced our growers – and this is a little bit about first quarter – forced a lot of our growers to go back into the queue and restart the process. They didn't grandfather any of the applications. That's a program that had been around since, I think, the mid-1990s. So, that was a major interruption. So, if they don't approve things, that's what we look at more as impacting our business than some of the little changes that you may see through the actual Farm Bill.

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**Brian Wright**

*Analyst, ROTH Capital Partners LLC*



Great. Thank you so much for the insight.

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**Operator:** Thank you. We have reached the end of our question-and-answer session. I'll now turn the call back over to Renee Campbell for any closing comments.

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**Renee L. Campbell**

*Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.*

Thank you for joining us today. As mentioned, today's call will be available later this morning for playback on our website or by phone for the next seven days. We look forward to speaking with you again next quarter.

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**Operator:** Included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in the industries in which Valmont operates, as well as management's perceptions of historical trends, current conditions, expected future developments, and other factors believe to be appropriate under the circumstances.

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The company cautions that any forward-looking statement included in this discussion is made as of the date of this discussion, and the company does not undertake to update any forward-looking statements.

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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